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SUBJECT: EGYPT'S EQUITY MARKET: IS THERE MORE ROOM TO RUN?

REF: CAIRO 1927

1. (U) KEY POINTS

- The Egyptian stock market has been a strong performer in 2009. The large cap index is up over 45% and the broader index is up nearly 100%.
- Optimism about the Egyptian economy along with continued low commodity prices have been catalysts for buyers of Egyptian equities.
- Much of the good news and speculative foreign demand may already be priced into the market. The remainder of the year should see a greater level of volatility in the market.

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A Good Year So Far  
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2. (U) The Egyptian large-cap EGX 30 (formerly the CASE 30) index is up more than 45% since the beginning of the year and close to 100% from its low in February 2009. This is on par with the return of the Israeli TA-25 index and a far better performance than any of the markets of the other regional Arab states. The broader EGX 70 index is up almost 100% year-to-date. Real estate and construction stocks have been the sector leaders and have nearly doubled so far this year because of continued demand and lower raw materials prices. Other sectors outperforming the index include financial services, travel and leisure, and banks. Average monthly trading volume on the Cairo exchange in 2009 has been LE31 billion (US\$5.6 billion), down about 30% from 2008.

3. (U) There are several factors driving demand for Egyptian equities. First is that there is increased global liquidity and a stronger appetite for emerging market equities, some of which is flowing into Egyptian stocks which are seen as having a relatively favorable risk-reward ratio. Second is that prices still appear to be cheap having fallen 56% in 2008 and ending the year 61% off its yearly high. Also contributing to demand are lower interest rates combined with sustained (though far lower than last year) GDP growth. Indications of economic recovery in Egypt's European export markets have also contributed to a level of bullishness on Egypt's economic future.

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The Future is Not So Clear  
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4. (SBU) Mark Rorison, Head of Research for CI-Capital Research, told us that the performance of Egypt's stock market this year has been driven by and has closely mimicked the performance of the US stock market. While he is very upbeat on the mid to long term prospects of the Egyptian

economy, he feels that short term performance of the Egyptian equity market does not necessarily reflect fundamentals of the Egyptian economy.

15. (U) There is no denying that some sectors, particularly those that are driven by domestic demand and/or benefit from lower commodity prices will continue to do well relative to the index. Global equity trends also contribute to the mix, and global fund managers who have had a good run so far this year, may look to take some profits off the table. Egypt is also a relatively small market both in terms of market capitalization and share float. As the events of the last few years have shown, money flows both ways. In emerging stock markets, liquidity fears can spur panic selling and a run for the door.

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Comment  
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16. (U) After a disastrous year in 2008, Egyptian stocks really had nowhere to go but up, and money has flowed into the Egyptian market this year. As we reported (reftel), there is much optimism about the performance of Egypt's economy in the face of the global economic downturn. Much of this has already been priced into Egyptian equities. In the Egyptian case, stock market performance may not be as clear of a leading economic indicator of corporate performance as in other countries. There is a lot that could go right (increased FDI, quick turnaround in the economies of key trading partners, stimulus driven growth), but a lot could go wrong as well (sharp increases in commodity prices, further erosion of fiscal discipline, challenges in attracting needed infrastructure investment). There is probably still room both for additional speculative investment in selected companies and sectors that are expected to outperform over the next few years, but we expect to see increased volatility in Egyptian markets as both domestic and international sentiment continue to shift rapidly through the remainder of the year.  
Sobey